



August 2, 2005

**Via Electronic Mail**

Ms. Jean A. Webb  
Secretary  
Commodity Futures Trading Commission  
Three Lafayette Centre  
1155 21st Street, N.W.  
Washington, D.C. 20581

Re: CBOE Futures Exchange, LLC Rule Certification  
Submission Number CFE-2005-22

Dear Ms. Webb:

Pursuant to Section 5c(c)(1) of the Commodity Exchange Act, as amended ("Act"), and §40.6(a) of the regulations promulgated by the Commodity Futures Trading Commission ("Commission") under the Act, CBOE Futures Exchange, LLC ("CFE" or "Exchange") hereby submits this rule change ("Amendment") to revise CFE's error trade policy set forth in CFE Policy and Procedure III. The Amendment makes clear that with respect to trades involving a spread order (*e.g.*, a combination order and not independent, separate legs), the CFE help desk may also consider the theoretical net price of the spread order and apply the "no bust range" in relation to that theoretical net price, as opposed to reviewing the prices received for the individual legs of the spread order.

The Amendment will become effective on August 4, 2005.

CFE is not aware of any substantive opposing views to the Amendment. CFE hereby certifies that the Amendment complies with the Act and the regulations thereunder.

The Amendment, marked to show additions in underlined text and deletions in [bracketed] text, is attached as Exhibit A.

Questions regarding this submission may be directed to David Doherty at (312) 786-7466. Please reference our submission number CFE-2005-22 in any related correspondence.

CBOE Futures Exchange, LLC

By: \_\_\_\_\_  
Edward J. Joyce  
President

cc: Steven Benton (CFTC)  
Mark Baumgardner (OCC)

## Exhibit A

### **III. Resolution of Error Trades (Rule 416)**

#### **A. *General Policy***

##### 1. *Invoking Error Trade Policy*

Any request by a Trading Privilege Holder to invoke the error trade policy with respect to any trade must be made to the help desk as soon as possible. Additionally, an employee of the Exchange can bring a potential error trade to the help desk's attention. The help desk may provide assistance only to Trading Privilege Holders. In all cases, if a potential error trade is not brought to the help desk's attention within eight minutes after the relevant trade occurred, such trade will stand, except as provided in Part B below.

##### 2. *Procedure Followed by Help Desk*

When a potential error trade is brought to the help desk's attention, the help desk will determine whether the trade price is in the "no bust range" for the relevant Contract, as set forth in the Rules governing such Contract. With respect to trades involving a Spread Order (e.g., a combination order and not independent, separate legs), the help desk may also consider the theoretical net price of the Spread Order and apply the "no bust range" in relation to that theoretical net price (such that if the net trade price of the Spread Order was inside (outside) that "no bust range", all of the trades involving the Spread Order would be treated as inside (outside) the "no bust range"). In making a determination regarding the theoretical net price of a Spread Order, the help desk may consider all relevant factors, including the net of the true market prices of the Contracts that comprise the individual legs of the Spread Order (each determined in the manner described above) and the net price of other Spread Orders of the same type.

In determining whether the trade price is within the "no bust range," the help desk will determine what the true market price for the relevant Contract was immediately before the potential error trade occurred. In making such determination, the help desk may consider all relevant factors, including the last trade price for such Contract, a better bid or offer price, a more recent price in a different contract month and the prices of related contracts trading in other markets.

##### 3. *Trade Price Inside "No Bust Range"*

If the help desk determines that the trade price of a potential error trade was inside the "no bust range" for the relevant Contract, such trade will stand and no further action will be taken. No such trade can be busted by agreement of the parties to such trade.

##### 4. *Trade Price Outside "No Bust Range"*

If the help desk determines that the trade price of a potential error trade was outside the "no bust range" for the relevant Contract, it will send an alert to all

CBOE Workstations that are able to receive text messages for such Contract from the CBOE System, indicating that such trade may be an error trade. The help desk will also attempt to contact all parties to such trade.

If all parties to a trade agree to bust such trade within 10 minutes from the time that the error trade alert message was sent, then such trade will be busted. If any party to such trade cannot be contacted or does not agree to bust such trade, Exchange staff will review the circumstances surrounding such trade to determine whether such trade should be busted. The factors that may be considered by Exchange staff in this connection include: the market conditions immediately before and after such trade occurred; the volatility of the market; the prices of related instruments in other markets; whether one or more parties to such trade believe that such trade was made at a valid price; and any other factors that Exchange staff may deem relevant. Exchange staff shall make its decision as promptly as practicable. Such decision shall be final.

If a trade is busted, either by agreement of the parties thereto or by Exchange staff, the help desk will cancel such trade. The error trade price and any invalid price quotes due to an error trade that is busted will be removed from the Exchange's official record of time and sales.

If a trade is not busted, the parties thereto cannot reverse such trade, except as provided in Part B below. The parties to any such trade may also not "trade out" of such trade by entering into a pre-arranged offsetting transaction; *provided* that the parties may engage in pre-execution discussions with each other in accordance with procedures established by the Exchange from time to time.

5. *Contingency Orders Triggered by Error Trade*

If an error trade is busted, either by agreement of the parties thereto or by Exchange staff, the help desk will also (a) bust all trades that were triggered as a result of contingency Orders being triggered by such trade and (b) cancel all bids and offers that were entered into the CBOE System as a result of contingency Orders being triggered by such trade. The help desk will notify the Trading Privilege Holders responsible for the trades so busted and the bids or offers so cancelled so that the original Orders can be re-entered into the CBOE System.

6. *Notice of Final Action*

As soon as a decision regarding a potential error trade has been made, the help desk will disseminate a notice, indicating whether such trade is busted or stands. In the case of a busted trade, the help desk will attempt to facilitate a resolution by re-establishing Orders and their respective priorities in the CBOE System.

**B. – F.** No change.